



Commonwealth of Massachusetts
**DEPARTMENT OF HOUSING &
COMMUNITY DEVELOPMENT**

Deval L. Patrick, Governor ◆ Aaron Gornstein, Undersecretary

Testimony of Aaron Gornstein

Before the House Committee on Bonding, Capital Expenditures and State Assets

“An Act Financing the Production and Preservation of Housing for Low and Moderate Income Residents” (H. 3333)

June 3, 2013

Good morning, Chairman Cabral and members of the committee. I am Aaron Gornstein, Undersecretary for Housing and Community Development and I am pleased to have the opportunity to appear before you today to testify on Governor Patrick's housing bond bill, House 3333.

Before I begin, I want to thank you for your commitment to affordable housing and for your willingness to work with the Administration on so many of our housing initiatives and priorities.

Governor Patrick has filed a housing bond bill in the amount of \$567 million to continue the Commonwealth's investments in affordable housing. This bill is part of a series of bond bills that support the five-year FY2013-2017 Capital Investment Plan that was released in October of 2012.

The Capital Investment Plan and this Bond Bill represent the second installment in the Patrick-Murray Administration's effort to reverse previous decades of under-investment; to create jobs; and, to improve the Commonwealth's economic future by supporting public assets like the state's public housing portfolio and by building new, desperately needed affordable housing for low- and moderate residents.

In preparing this bond bill, our goal was to ensure that the 2013 five-year Capital Plan was fully funded, and that the needs identified in that plan were met while at the same time being fiscally responsible. This bond bill does that. It is a four-year authorization that utilizes the as of yet uncommitted authorized funds from the last housing bond bill. It also ensures that critical future year planning and pipeline development can happen.

I'd like to take a moment to highlight a few programs. The single largest line item in the Governor's Bond Bill is for Public Housing Modernization and Revitalization.

The Commonwealth has approximately 45,000 units in its public housing portfolio, more than any other state in the nation. When he took office, Governor Patrick inherited a neglected public

housing system, much of which was built in the 1950's, with a backlog of expired building systems and deferred maintenance. By federal law, HUD funds cannot be used in state-assisted public housing. So, to preserve these units, Governor Patrick dramatically increased the Commonwealth's capital investment in this housing stock.

Since 2008, we have reinvested \$550 million to renovate, redevelop, make ADA compliant, make energy efficient, and maintain our public housing stock. There are about 1800 projects of various degrees of complexity in our pipeline at all times. Our recommendation will ensure that this investment will continue so that these much-needed projects will be completed.

All of the awards that DHCD makes to LHAs are condition or performance based. For capital expenditures in public housing, DHCD has developed a series of programs that direct annual spending to priority projects according to a 5-year statewide capital plan.

I would like to describe a few of them now.

Through our Formula Funding Plan, all Local Housing Authorities receive a proportional share of DHCD's annual bond cap. All Local Housing Authorities prepare a five-year capital plan that is updated annually. Formula Funding provides a three-year allocation. This program absorbs approximately one half of the annual \$90 million bond cap for public housing. Because DHCD undertook a complete inventory of all LHA systems and their estimated life span – windows, roofs, heating, siding, etc. – LHAs can now budget for timely replacement, thus forestalling expensive emergency repairs when a system fails. Many of the projects cost more than any single year's Formula Funding allocation, so we allow the LHAs to bundle multiple years of funding. To accomplish this, DHCD makes future year Formula Funding awards annually, so LHAs have three years of funding with which to work.

The public housing Sustainability Program, for which we have budgeted from \$2 - \$5 million annually, invests in projects that conserve water and energy, thereby reducing utility expenses. It also promotes improving indoor air quality, reducing greenhouse gas emissions, and advancing the use of innovative, green building technologies and services provided by Massachusetts based companies.

We have just launched the High Leverage/Mixed Finance Asset Preservation Program that will fund grant funds through a competitive process, to complement the Formula Funding program, and that requires a 50 percent match from outside sources. We intend to commit \$75 million over the next five years to this program, which will enable us to tackle the backlog of capital needs.

The Administration has also made strides in expanding and preserving affordable housing development that is owned by non-profit and for-profit sponsors. By awarding \$453 million to 354 low income developments in 123 cities and towns across the Commonwealth, we have been able to:

- Develop or preserve 13,346 units of housing for families, seniors, and people with disabilities;
- Leverage approximately \$1.53 billion in other state, local and federal funds
- Modify over 1,070 homes to increase accessibility and improve safety for households with persons with disabilities; and,
- Create 17,104 jobs for Massachusetts workers

These projects are selected through regularly scheduled competitions wherein the Department receives rental project applications for funding. All project applications are carefully evaluated in accordance with established criteria to evaluate whether the proposed project represents a sound real estate investment and whether it is consistent with DHCD's mission and goals. The criteria for project selection are published every year in our Low Income Housing Tax Credit Qualified Allocation Plan. The criteria apply to bond projects, as well as tax credit projects, and have led to the selection of hundreds and hundreds of strong projects over time.

I am pleased to say that almost all bond-funded projects are completed on time and within budget. In a given year, the Department's Division of Housing Development funds 40-60 bond projects. When these projects move into construction, 95 percent of them are going to be completed on time and within budget. These projects are carefully underwritten before they are funded. Once they move to construction, DHCD's inspectors are on site monthly or bi-monthly, and DHCD is in very regular communication with other project lenders. In a given year, some projects experience slight construction delays that do not result in budget increases. One or two projects might go over budget, but, if that happens, the project sponsor bears primary responsibility for filling the resulting gap. These practices are essential to sound lending and because DHCD adheres to these practices, our record in funding successful projects is outstanding.

Some of the key programs for private housing development include:

- \$32 million for community based housing, to support appropriate housing for persons with disabilities
- \$76 million for the Affordable Housing Trust Fund, which provides resources to create or preserve affordable housing for households whose incomes are below 100% of area median income
- \$37 million for the Housing Stabilization Fund, which was created in the 1993 Housing Bond Bill as a response and supplement to the federal government's creation of the HOME program the previous year

- \$26 million for the Housing Innovations Fund, which supports the creation of thousands of affordable SROs and apartments for persons with special needs and formerly homeless households.

There are also some modest technical changes to the housing development programs that are included in the bond bill that will reduce barriers to development of low-income housing by removing unnecessary restrictions on refinancing projects; enable non-profit developers to receive additional cash flow from their projects; and, allow the Housing Innovations Fund to be used for more than 50% of the total development cost of a project. These standard changes are supported by housing advocates and developers, and will increase the effectiveness of these capital programs.

In addition to this proposed bond bill, the Administration will use uncommitted authorization from the 2008 bond bill to support the plan. By adding the uncommitted, authorized funds to the new proposal, the total of the proposed funding is \$1.07 Billion, subject to the future capital plans and debt affordability analyses.

Because so much of our capital resources are invested in our public housing portfolio, before I close, I would like to give you an overview of the progress we are making with the Governor's reform of the Public Housing system.

As I mentioned earlier, Massachusetts has approximately 45,000 units of state public housing in our portfolio. Last year, the Governor's Commission for Public Housing Sustainability and Reform recommended a series of steps that, combined with other administrative actions we have taken, will result in a more efficient and transparent public housing system. The administrative actions have focused on transparency, financial reporting, contract and salary restrictions, turnover of vacant units, and board training. Additionally, the Administration has made many other public housing initiatives, including a commitment of over \$2 million to assist Local Housing Authorities in bringing approximately 225 unoccupied units back on line and \$3 million to address immediate health and safety issues. A complete status report on all of our reforms can be found on the DHCD web site.

The Governor has also filed legislation that will restructure the current archaic and inefficient system to one where the 240 Local Housing Authorities will be consolidated into six Regional Housing Authorities. The six RHAs will each consist of one executive director, an appointed governing board, regional management staff and local site managers. Daily operations affecting tenants will continue to be addressed by local staff, while more complex property management responsibilities will benefit from centralized expertise and experienced oversight. Local site staff will be among the most important in the system and will provide the all-important "local touch" that is essential to successful property management.

The proposed system will be able to take advantage of the economies of scale in purchasing, computing, and administrative functions. To ensure that communities will have control over land use decisions, every municipality will have the option of either establishing a Local Housing

Board or bringing those decisions in under the local government structure through its Planning Board.

We believe strongly that the proposed regionalized system will save money, increase transparency, improve tenant services, and increase efficiency across the entire system.

I want to thank you, Chairman Cabral, for the opportunity to speak to the Administration's Housing Bond Bill, and to one of our most critical reforms. I look forward to working with you on these and other initiatives.